

ALASKA COMMUNICATIONS

CAF Frozen Support Obligations

November 15, 2012

CAF Phase I Frozen Support Obligations

FCC rules limit LECs' flexibility to use Frozen Support where it is most needed

- Holding company has flexibility to deploy Incremental Support across wire centers throughout the company, report only how many net additional locations are “served”
- Frozen Support is *not* fungible across the holding company
 - Must be used in the specific LEC operating company for which it is provided
 - Does not permit service provider to determine best use of the funds to provide broadband to the maximum number of locations
- Frozen Support still must help support universal availability of voice services throughout the LECs' service areas, even though FCC rules require LECs to demonstrate that Frozen Support is used build and operate broadband in select locations
 - It appears that ICLS now is considered part of “Frozen Support” and thus subject to the broadband spending requirement (along with support previously received as HCLS and LSS)

CAF Phase I Frozen Support Obligations

Compliance with reporting obligations will require additional personnel

- Company must develop a new 5-year service improvement/broadband build-out plan, and file annual reports covering use of support, including services offered, pricing, outages, complaints, tribal engagement, and required certifications
 - LECs record asset information and operating expenses by Study Area, wire center, serving node, Part 32 code and location code
 - To comply with new rules, LECs must begin tracking which census blocks and locations are “served” by the LEC or an unsupported competitor
 - Reporting on the use of Frozen Support to operate broadband-capable networks requires changes to systems used in tracking operating costs
 - Every operating expense is assigned a cost center, Part 32 code, General Ledger account number for tracking type of cost (labor, materials, services), and study area identification code
 - ACS still is analyzing how to track use of Frozen CAF at level of detail that may be required in an audit -- the company has no existing systems to track costs or locations served at the census block level
 - Compliance will require at least two additional employees to support the reporting obligations; one full-time network planner, and one full-time financial analyst

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Satisfying the FCC broadband obligations requires ACS to undertake extensive analysis of its network, customers and competitive services

- The ACS LEC networks are not built along census block boundaries
 - Many types of network facilities, such as central offices, nodes, and inter-office transport, frequently serve multiple census blocks
 - This complicates the exercise of determining what broadband facilities will serve locations in “served” versus “unserved” census blocks
- ACS’s customer location information also is not organized along census block lines
 - ACS must overlay NBM information showing “unserved” census blocks on top of ACS customer location data
 - Alaska is unique in that roughly one-sixth of customer locations are non-standard addresses that do not appear on any commercially available mapping databases, or map incorrectly; therefore all such locations must be manually researched to associate them with the correct census block

CAF Phase I Frozen Support Obligations

The Commission's Orders and Rules contain a number of ambiguities that increase the complexity of planning broadband deployment using CAF

- Frozen Support may be used to “build and operate” broadband but no guidance has been given regarding the permissible allocation of funds to broadband operations vs. building broadband to previously “unserved” locations
- Unclear whether Frozen Support may be used to augment build-out to locations reached in part with Incremental Support
- What is the impact of updates to the NBM? Unclear whether Frozen Support may be used in areas that were unserved by an unsubsidized competitor according to the NBM as of January 1, 2012, but in subsequent years become served by an unsubsidized competitor at 4+ Mbps
- Definition of “unsubsidized competitor” requires that it offer facilities-based residential fixed voice as well as broadband service
 - If the competitor offers broadband but no voice service, may the census block be considered “unserved” notwithstanding the appearance of this provider on the NBM?